

**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
CLERK**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWSLEY COUNTY CLERK

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts was engaged to complete the audit of the Owsley County Clerk for the year ended December 31, 2006. As a result of this engagement, we have issued a disclaimer of opinion on the financial statement and supplemental information.

Report Comments:

- | | |
|---------|--|
| 2006-01 | The County Clerk Failed To Manage The Financial Activities Of His Office Resulting In A \$15,715 Deficit For 2006 |
| 2006-02 | The County Clerk Should Eliminate A \$15,715 Deficit For 2006 |
| 2006-03 | The County Clerk Used 2007 Delinquent Tax Collection To Fund 2006 Fee Account Shortfall |
| 2006-04 | The County Clerk Deposited \$7,100 Of Unofficial Receipts After The 2006 Year-End |
| 2006-05 | The County Clerk Had \$1,781 In Disallowed Expenditures |
| 2006-06 | The County Clerk Had Irregularities In The Collection Of 2005 Delinquent Taxes |
| 2006-07 | The County Clerk Has Poor Internal Controls Over The Collection Of Delinquent Taxes |
| 2006-08 | The Deputies' Salaries Exceeded The Approved Salary Cap Set Forth By Fiscal Court By \$20,794 |
| 2006-09 | All Deposits Were Not Made Intact Daily And The Daily Checkout Sheets And Receipts Ledger Postings Did Not Agree To Daily Bank Deposits |
| 2006-10 | The County Clerk Should Not Commingle Public and Personal Funds |
| 2006-11 | The County Clerk Did Not Account For Fish And Wildlife Collections |
| 2006-12 | The County Clerk Is Not Following Proper Timekeeping Practices For Payroll |
| 2006-13 | The County Clerk's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Governor's Office For Local Development |
| 2006-14 | The County Clerk Did Not Maintain Bank Statements And Did Not Reconcile His Bank Accounts On A Monthly Basis |
| 2006-15 | The County Clerk Should Record Payments From The Commonwealth Of Kentucky And The Fiscal Court In Accordance With KRS 43.075 |
| 2006-16 | The County Clerk Did Not Pay Expenditures Timely |
| 2006-17 | The County Clerk's Office Lacks Adequate Segregation Of Duties |
| 2006-18 | The County Clerk Overpaid The Owsley County Extension District \$2,708 From The 2005 Fee Account |
| 2006-19 | The County Clerk Failed To Comply With Uniform System Of Accounts |

Deposits:

The County Clerk's deposits were fully insured.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Cal Turner, Owsley County Judge/Executive
The Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

Independent Auditor's Report

We were engaged to audit the financial activity contained in the Fourth Quarterly Report of the County Clerk of Owsley County, Kentucky, for the year ended December 31, 2006. This financial report is the responsibility of the County Clerk.

The financial activity contained in the Fourth Quarterly Report is intended to present budgeted and actual receipts and disbursements of the Owsley County Clerk on the cash basis of accounting. Actual receipts and disbursements are recognized when received or paid rather than when earned or incurred. The presentation of the financial activity contained in the Fourth Quarterly Report is not intended to be a presentation in conformity with generally accepted accounting principles.

The Owsley County Clerk did not maintain adequate accounting records to allow us to verify the receipts and disbursements and determine the validity of the transactions for the year ended December 31, 2006. We were unable to apply procedures to determine whether the financial report is presented fairly in conformity with the cash basis of accounting and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Owsley County Clerk's records did not permit the application of other auditing procedures to receipts and disbursements for the year ended December 31, 2006.

Since the Owsley County Clerk did not maintain adequate accounting records and we were unable to apply other auditing procedures to satisfy ourselves as to the receipts and disbursements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial report.

We were engaged to audit the financial report referred to above for the purpose of forming an opinion on the financial report. The Schedule of Excess Of Liabilities Over Assets is presented for the purpose of additional analysis and is not a required part of the financial report. As discussed in the fourth paragraph above, the scope of our work was not sufficient to enable us to express an opinion on the financial report of the County Clerk. Similarly, we are unable to express and do not express an opinion on the Schedule Of Excess Of Liabilities Over Assets in relation to the financial report of the Owsley County Clerk for the year ended December 31, 2006.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The County Clerk Failed To Manage The Financial Activities Of His Office
Resulting In A \$15,715 Deficit For 2006
- 2006-02 The County Clerk Should Eliminate A \$15,715 Deficit For 2006



The Honorable Cal Turner, Owsley County Judge/Executive
The Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

- 2006-03 The County Clerk Used 2007 Delinquent Tax Collection To Fund 2006 Fee Account Shortfall
- 2006-04 The County Clerk Deposited \$7,100 Of Unofficial Receipts After The 2006 Year-End
- 2006-05 The County Clerk Had \$1,781 In Disallowed Expenditures
- 2006-06 The County Clerk Had Irregularities In The Collection Of 2005 Delinquent Taxes
- 2006-07 The County Clerk Has Poor Internal Controls Over The Collection Of Delinquent Taxes
- 2006-08 The Deputies' Salaries Exceeded The Approved Salary Cap Set Forth By Fiscal Court By \$20,794
- 2006-09 All Deposits Were Not Made Intact Daily And The Daily Checkout Sheets And Receipts Ledger Postings Did Not Agree To Daily Bank Deposits
- 2006-10 The County Clerk Should Not Commingle Public and Personal Funds
- 2006-11 The County Clerk Did Not Account For Fish And Wildlife Collections
- 2006-12 The County Clerk Is Not Following Proper Timekeeping Practices For Payroll
- 2006-13 The County Clerk's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Governor's Office For Local Development
- 2006-14 The County Clerk Did Not Maintain Bank Statements And Did Not Reconcile His Bank Accounts On A Monthly Basis
- 2006-15 The County Clerk Should Record Payments From The Commonwealth Of Kentucky And The Fiscal Court In Accordance With KRS 43.075
- 2006-16 The County Clerk Did Not Pay Expenditures Timely
- 2006-17 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2006-18 The County Clerk Overpaid The Owsley County Extension District \$2,708 From The 2005 Fee Account
- 2006-19 The County Clerk Failed To Comply With Uniform System Of Accounts

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2007, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Owsley County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



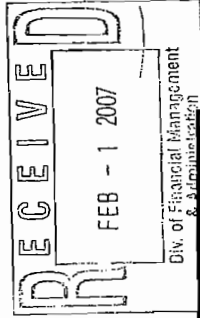
Crit Luallen
Auditor of Public Accounts

November 8, 2007

STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

Form For Budget, Cumulative Quarterly Report and Annual Settlement For Calendar Year 2006

OWSLEY County Clerk



Part One - Summary and Reconciliation of All Accounts

Show & Describe All Accounts	Column 1	Column 2	Column 3	Column 4	Column 5
	2006 Fee Account Budget Estimate	2006 Fee Account Cumulative Actual	Account (NOT FEE ACCOUNT)	Account (NOT FEE ACCOUNT)	Account (NOT FEE ACCOUNT)
1. Beginning Balance Plus Receipts YTD	\$58,423.26	570,886.53			
2. Total Disbursements YTD	\$58,423.26	156,550.69			
3. Book Balance/Excess Fees		414,335.84			
4. Bank Statement Balance		248,771.91			
5. Plus Deposits In Transit		25,372.29			
6. Less Outstanding Checks		44,149.36			
7. Other					
8. Reconciled Bank Balance		530,584.84			
9. Accounts Receivable as of 12/31					
10. Unpaid Obligations as of 12/31					
11. Excess Fees					

Instructions: This form is the required format for the budget and the quarterly report. BUDGET: After completing the budget estimate columns of Parts One, Two and Three, submit to the fiscal court for approval by January 15th and following approval submit to the state local finance officer. QUARTERLY REPORT: The quarterly report is cumulative. Show the status of all funds in the official's charge during calendar year to date in Part One. Line 1 Show total receipts on a cash basis for the year to date including any beginning balances for all accounts. Show current year fee account in COLUMN 2 as calculated in Part Two of report. Line 2 Show total disbursements on a cash basis for the year to date for all accounts. Show current year fee account in COLUMN 2 as calculated in Part Three of report. Line 3 Show difference between lines 1 and 2 for all accounts. Line 4 Show bank statement balance(s) at close of quarter. Line 5 Show total deposits made prior to close of quarter that are not reflected in bank statement(s). Line 6 Show total amount of checks issued prior to close of quarter that are not reflected in bank statement(s). Line 7 Show investments. Line 8 Show line 4 adjusted for lines 5, 6, and 7. Line 8 should equal line 3 for all accounts. Line 9 Complete for quarter ending 12/31. Show calculation in Part Two of report. Line 10 Complete for quarter ending 12/31. Show calculation in Part Three of report. Line 11 Complete for quarter ending 12/31. Show line 8 adjusted for lines 9 and 10. All debt to be shown in Part Four. Report due to: State Local Finance Officer, 1024 Capital Center Drive, Suite 340, Frankfort, KY 40601-8204 by the 30th day following the close of each quarter. Fax # 502-573-3712 / Ph # 502-573-3710.

Approved by the fiscal court on the 23 day of Jan, 2006

Col. J. J. J. 1-23-2006 1-23-06

To the best of my knowledge the information reported herein for the ended 12-31-06 is accurate and complete.

Col. J. J. J. 1-10-07

County Judge/Executive

Date

Signature of County Clerk

Date

Part Two Receipts	Budget Estimate	1/1 thru 3/31	4/1 thru 6/30	7/1 thru 9/30	10/1 thru 12/31	Total YTD	Accounts Receivable 12/31	Settlement Total
1. Federal Grants/Reimbursements								
2. State Grants								
3. State Fees For Services								
4. Fiscal Court	36,638.44	4485.48				4485.48		4485.48
5. Licenses and Taxes								
6. Motor Vehicle:								
7. Licenses and Transfers	113,110.06	38871.80	37182.39	21770.27	19625.86	117450.32		117450.32
8. Usage Tax	98,500.00	25234.42	22025.15	23891.22	22273.97	93444.70		93444.70
9. Tangible Personal Property Tax	228,000.00	75490.58	58636.71	54121.52	56701.29	238844.10		238844.10
10. STATE REPAIR	2800.00							
11.								
12. Licenses: (describe)								
13. Fish and Game	162,000.00	4617.50	3752.75	1646.75	4383.75	14400.75		14400.75
14. Marriage		172.50	310.50	345.00	207.00	1035.00		1035.00
15. Occupational								
16. Beer & Liquor								
17.								
18.								
19. Deed Transfer Tax	3200.00	528.00	1126.30	995.50	1309.00	3958.80		3958.80
20. Delinquent Taxes	16800.00	1385.11		822.57	1592.72	11271.00		11271.00
21. Fees Collected for Services								
22. Recordings:								
23. Deeds, Easements, and Contracts	44400.00	660.00	804.00	778.00	1053.00	3295.00		3295.00
24. Real Estate Mortgages	1800.00	480.00	480.00	323.00	653.00	1936.00		1936.00
25. Chattel Mortgages & Financing Stmtts	15700.00	3528.00	2583.00	3234.00	4095.00	13440.00		13440.00
26. Powers of Attorney	550.00	57.00	6.00	44.00	112.00	219.00		219.00
27. All Other Recordings	3500.00	1110.00	910.00	517.00	1363.00	3900.00		3900.00
28. Charges for Other Services:								
29. Copywork								
30. MISC	3500.00	1155.00	1332.00	1581.00	1304.00	5377.00		5377.00

Part Two (continued) Receipts	Budget Estimate	1/1 thru 3/31	4/1 thru 6/30	7/1 thru 9/30	10/1 thru 12/31	Total YTD	Accounts Receivable 12/31	Settlement Total
31. Other: (describe)								
32. C.O. REIMB	11924.76		6100.00		5391.00	11490.00		11490.00
33. LENSEES	1800.00	375.00	467.00	422.00	325.00	1589.00		1589.00
34. Interest Earned								
35. KY ST. TREASURER			42850.38		1700.00	44750.38		44750.38
36. Total Revenues								
37. Petty Cash								
38. Borrowed Money								
39. Total Receipts	558493.26	158670.99	177965.18	117961.83	111288.33	570886.53		570886.53

Copy the figure shown on Line 39 in the Budget Estimate column to the Summary on page 1, column 1, line 1. Copy the figure shown on Line 39 in the Total YTD column to page 1, column 2, line 1. Copy the figure shown on Line 39 in the Receivable column (use for 1231 report only) to page 1, line 9.

Part Three Disbursements	Budget Estimate	1/1 thru 3/31	4/1 thru 6/30	7/1 thru 9/30	10/1 thru 12/31	Total YTD	1231 Unpaid Obligations	Settlement Total
1. Payments to State (describe)								
2. Motor Vehicle:								
3. Licenses & Transfers	86767.28	16678.44	35354.23	15033.76	15730.85	83017.28		83017.28
4. Usage Tax	95110.00	24345.40	21326.87	23250.13	21786.13	90708.53		90708.53
5. Tangible Personal Prop Tax	92402.66	15297.47	29815.76	21516.95	27100.73	93730.91		93730.91
6. Licenses: (describe)								
7. Fish & Game	15800.00	3337.00	4719.04	1659.80	5595.97	15533.81		15533.81
8. Marriage Licenses								
9.								
10. Delinquent Tax	1916.00	123.07		570.33	365.08	1058.70		1058.70
11. Legal Process Tax	4400.00	541.57	1014.82	908.87	1295.11	3760.37		3760.37
12.								
13. Payments to Fiscal Court (describe)								
14. Tangible Personal Property Tax	24109.56	3835.93	1137.52	5217.34	16699.84	26890.65		26890.65
15. Delinquent Tax	3200.00	240.54		882.13	577.94	1700.61		1700.61
16. Deed Transfer Tax	2900.00				3760.96	3760.96		3760.96
17. Occupational Licenses								
18. Beer & Liquor Licenses								

Part Three (continued)	Budget Estimate	1/1 thru 3/31	4/1 thru 6/30	7/1 thru 9/30	10/1 thru 12/31	Total YTD	12/31 Unpaid Obligations	Settlement Total
19.								
20.								
21. Payments to Other Districts (describe)								
22. Tangible Personal Property Tax	113,708.65	17889.58	36558.97	24401.74	32853.98	111,706.27		111,706.27
23. Delinquent Tax	89,416.91	625.37		2857.03	18,411.60	5324.80		5324.80
24.								
25. Payments to Sheriff	460.00	35.00		76.00	56.00	155.00		155.00
26.								
27. Payments to County Attorney	2100.00	184.16		1030.52	588.34	1803.02		1803.02
28.								
29. Personal Services								
30. County Clerk's Gross Salary	58698.20	11939.73				11,939.73		11,939.73
31. County Clerk's Expense Allowance								
32. Deputies Gross Salaries	37200.00							
33. Part Time Gross Salaries								
34. Overtime Gross								
35. Payroll			14908.50	5469.50	2777.50	48125.50		48125.50
36. Employee Benefits								
37. Employer's Share S.S. (7.65%)								
38. Employer's Share Ret.								
39. Employer Paid Health Insurance								
40. Other Payroll Disbursements								
41. Training Fringe Benefit (HB 810)								
42. Contracted Services								
43. Fish & Game								
44. Advertising								
45. Printing & Binding								

LE 1142,005 Rev. 11/03

Part Three (continued)	Budget Estimate	1/1 thru 3/31	4/1 thru 6/30	7/1 thru 9/30	10/1 thru 12/31	Total YTD	1231 Unpaid Obligations	Settlement Total
46.								
47.								
48. Supplies & Materials (describe)	720.00	462.26	49.40		388.94	900.64		900.64
49. PHONE	1850.00		489.74	270.58	544.62	1224.94		1224.94
50. ELECTION EXPENSE	7500.00		6195.00		5390.00	11585.00		11585.00
51. Other Charges (describe)								
52. Conventions & Travel								
53. Dues								
54. Postage	3700.00	876.53	1488.02	939.13	1577.98	4875.66		4875.66
55. MISC	3000.00	2031.08	42940.88	536.71	2370.94	47779.11		47779.11
56.								
57. Debt Service (Borrowed money, interest, lease/purchase)								
58. Principal on Note								
59. Interest								
60.								
61. Capital Outlay (Outright purchases on tangible items lasting in nature)								
62. Office Equipment								
63. Vehicle								
64.								
65.								
66.								
67. Total								
For offices that fee pool, pay fees to county prior to December 31, or counties over 70,000 in population, show payments made on lines 68 and 69.								
68. Payments to County Treasurer								
69. Payments to State Treasurer								
70. Total Disbursements	558423.26	986591.7	206118.27	104634.52	156148.23	565580.69		565580.69

Copy the figure shown on Line 70 in the Budget Estimate column to the Summary on page 1, column 1, line 2. Copy the figure shown on Line 70 in the Total YTD column to page 1, column 2, line 2. Copy the figure shown on Line 70 in the Unpaid column (use for 12/31 report only) to page 1, line 10.

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SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2006

Assets

Cash in Bank	\$ 23,054
Deposits in Transit	7,828
2007 Delinquent Tax Payment Deposited in 2006 Account	4,403
Reimbursement Due From County Clerk For Disallowed Expenditures	<u>1,781</u>
Total Assets	<u>37,066</u>

Liabilities

Paid Obligations:

Outstanding Checks	\$ 3,777	
Outstanding Liabilities	<u>40,929</u>	44,706

Unpaid Obligations:

Reimbursement Due to Fiscal Court for Disallowed Expenditures	1,781
City of Booneville	10
Delinquent Taxes	
State	85
County	167
School District	272
Library District	67
Health District	26
Extension District	53
Soil Conservation District	34
Sheriff	25
County Attorney	128
Due to 2007 Fee Account	4,403
Fish and Game Bank Account Shortage	<u>1,024</u>

Total Unpaid Obligations	<u>8,075</u>
Total Liabilities	<u>52,781</u>
Total Fund Balance as of December 31, 2006	<u><u>\$ (15,715)</u></u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Cal Turner, Owsley County Judge/Executive
The Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We were engaged to audit the financial activity contained in the Fourth Quarterly Report of the Owsley County Clerk for the year ended December 31, 2006, and have issued our report thereon dated November 8, 2007, wherein we disclaimed an opinion on the financial report because the County Clerk failed to maintain adequate accounting records.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owsley County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Owsley County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Owsley County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2006-01, 2006-07, 2006-09, 2006-11, 2006-12, 2006-14, 2006-16, and 2006-17.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owsley County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations: 2006-01, 2006-02, 2006-03, 2006-04, 2006-05, 2006-06, 2006-08, 2006-10, 2006-12, 2006-13, 2006-15, 2006-18, and 2006-19.

The County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Owsley County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 8, 2007

COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

2006-01 The County Clerk Failed To Manage The Financial Activities Of His Office
Resulting In A \$15,715 Deficit For 2006

Auditors have not been able to express an unqualified opinion on the County Clerk's financial statements for the past six years including the current engagement. The current engagement resulted in a \$15,715 deficit and the local bank closing his 2006 bank account to pursue collection of the overdrawn account through a collection agency.

Recommendations have been made for at least the last 7 years by three different auditing firms in an attempt to help the County Clerk understand how he could easily correct his poor financial practices and internal controls. The County Clerk has made virtually no attempt to correct even the most basic issues.

Improvement in his financial practices and internal controls are needed to ensure that proper information is being submitted on time and is not misleading to users of the information. This internal control deficiency creates an environment for the potential of a material misstatement in the financial statements caused either by error or fraud. We recommend the County Clerk improve his internal control procedures related to financial reporting, and be more diligent in the day-to-day operations of the office. Without the County Clerk taking an active approach to correcting his poor financial practices, taxpayer monies will continue to be at risk. In addition, various local and state agencies who rely on and monitor the financial and program activity of the County Clerk, cannot rely on or have any confidence in the reports submitted by the County Clerk.

County Clerk's Response: Will correct deficit.

2006-02 The County Clerk Should Eliminate A 15,715 Deficit For 2006

The County Clerk has a \$15,715 deficit as of December 31, 2006 resulting from expenditures exceeding receipts by \$7,640 and \$8,075 of unpaid obligations. The unpaid obligations include \$1,781 due to fiscal court for disallowed expenditures, \$4,403 of delinquent tax collections due to the 2007 fee account, an additional \$857 of tax remittances due to the appropriate taxing districts, sheriff and county attorney, \$1,024 cash shortage in the fish and game bank account and \$10 due to the City of Booneville.

The County Clerk should not expend more than the fees he collects within the year. All payments should be for reasonable, necessary expenditures of his office. To eliminate the deficit, the County Clerk should personally deposit \$15,715 to cover the shortage and immediately remit payments for all unpaid obligations.

County Clerk's Response: Will correct.

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

2006-03 The County Clerk Used 2007 Delinquent Tax Collection To Fund 2006 Fee Account Shortfall

The County Clerk deposited \$4,403 of 2007 delinquent tax collections into his 2006 fee account to cover a shortage in his 2006 fee bank account. The County Clerk originally told audit staff the money was attributed to an account receivable due to him from the City of Booneville but subsequently we confirmed from bank information that the monies were not from the City, but rather a 2007 delinquent tax receipt deposited into the 2006 fee account on February 6, 2007. The delinquent tax collection was not accounted for on any delinquent report and the County Clerk did not remit the taxes due to the appropriate districts. As trustee/agent, the County Clerk has the responsibility to timely remit delinquent tax collections to the appropriate districts. KRS 134.480 states the County Clerk should collect and make a report to the county treasurer and the other taxing districts at least every thirty days. In addition KRS 134.480(4) states, "If any clerk fails to pay to the person entitled thereto, upon demand, the money received in payment of a certificate of delinquency, he and his sureties shall be liable for the same and twenty percent (20%) interest thereon annually from the time he received it until paid." We recommend the County Clerk reimburse his 2007 fee account for the delinquent tax bill and then appropriately account for and remit delinquent tax payments in accordance with KRS 134.480. This matter will be referred to the Attorney General, Department of Revenue, and the County Attorney for review.

County Clerk's Response: Will correct.

2006-04 The County Clerk Deposited \$7,100 Of Unofficial Receipts After The 2006 Year-End

\$7,100 of "cash" deposits were made after year-end. These deposits are unidentified and could not be attributed to any 2006 tax collections or other fees of the County Clerk's office. Because the County Clerk continues the practice of producing insufficient financial records, we could not eliminate the possibility that these "cash" deposits were from 2007 cash payments received by the County Clerk to cover the \$15,715 cash shortage from 2006. The County Clerk has stated to audit staff that the cash monies were from his own personal funds, but he could not provide any financial documentation or record supporting the source of the funds.

We recommend the County Clerk use only current year official receipts for current year expenditures in order to correctly match transactions to the proper years and maintain the integrity of the intent of the receipt. Also, see Comment 2006-10 regarding the commingling of public and personal funds. This matter will be referred to the Attorney General, Department of Revenue, and the County Attorney for review.

County Clerk's Response: Will correct.

OWSLEY COUNTY
 SID GABBARD, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2006
 (Continued)

2006-05 The County Clerk Had \$1,781 In Disallowed Expenditures

The County Clerk had \$1,781 in disallowed expenditures including \$1,029 of bank overdraft fees, \$617 of disbursements without proper supporting documentation and \$135 of late fees to vendors. Bank overdraft fees and late payment fees are not necessary expenditures of the office and are reflective of poor management practices. In addition, without proper supporting documentation we could not determine if the payments made were reasonable and necessary expenditures of the office. We recommend the County Clerk only expend fee account monies for allowable purposes and have the proper supporting documentation for each payment. Also, the County Clerk should deposit personal funds of \$1,781 to reimburse the official account for these disallowed expenditures.

County Clerk's Response: No response.

2006-06 The County Clerk Had Irregularities In The Collection Of 2005 Delinquent Taxes

A total of 23 delinquent tax bills valued at \$5,077 were removed from the tax books maintained by the County Clerk. Auditors mailed these taxpayers a letter to determine if the missing bills had been paid. A total of 6 taxpayers responded and confirmed with a copy of a paid receipt signed by the County Clerk to indicate the County Clerk collected \$1,129 of these bills. We could only confirm one payment of \$140 was actually deposited into the bank. The remaining \$987 could not be traced to a bank deposit. None of the missing tax bills were included on a monthly delinquent tax collection report prepared by the County Clerk. We could not account for the remaining \$3,948, which in effect means the status of these taxpayers' bills is unresolved due to missing records. As previously discussed, we discovered a 2007 delinquent tax payment of \$4,403 was deposited into the 2006 fee account. (See comment 2006-02).

Based upon the confirmed paid tax bills, the County Clerk should remit the following:

State	\$ 85
County	\$ 167
School	\$ 272
Library	\$ 67
Health	\$ 26
Extension	\$ 53
Soil Conservation	\$ 34
Sheriff	\$ 25
County Attorney	\$ 128

This matter will be referred to the Attorney General and County Attorney to determine if the County Clerk made the required disposition of payment. In addition, we will refer this to the Department of Revenue to determine whether a review of delinquent tax collections prior to 2005 is appropriate.

County Clerk's Response: Will pay all tax districts.

OWSLEY COUNTY
 SID GABBARD, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2006
 (Continued)

2006-07 The County Clerk Has Poor Internal Controls Over The Collection Of Delinquent Taxes

The County Clerk has poor internal controls over delinquent tax collections because he did not account for or disburse all delinquent tax collections to the appropriate taxing districts. According to the County Clerk, as he receives payment his practice is to remove both copies of the bill. He would then give the taxpayer a copy marked paid and would keep a copy for himself. However, as discussed in comment 2006-04, the County Clerk could not provide copies of the 23 delinquent tax bills missing from the tax books from 2005 and they were not included on the monthly reports. By not properly accounting for these collections the risk that errors or fraud may occur and go undetected increases. We recommend the County Clerk implement the following procedures:

- Upon receipt of the delinquent bills from the Sheriff, the County Clerk should prepare an official delinquent tax list and record it as an official county record. Once a delinquent tax bill is paid, the County Clerk should document the payment on the official record as being paid and date of payment.
- Record all delinquent tax payments properly by recording the transaction on the daily check out sheet.
- Immediately stop the practice of removing delinquent tax bills from the tax bill books. The County Clerk should only remove the customer copy “yellow” and stamp “paid” on the official’s copy “pink”. The official’s copy should not be removed from the tax bill book. The file copy “green” should be filed with the monthly delinquent tax report.
- The monthly report should be reconciled and used to remit delinquent taxes to the appropriate taxing districts.

County Clerk’s Response: No response.

2006-08 The Deputies’ Salaries Exceeded The Approved Salary Cap Set Forth By Fiscal Court By \$20,794

The County Clerk deputies’ salaries exceeded the amount approved by fiscal court by \$20,794. The fiscal court approved the salary cap for deputies at \$40,000 for the year. The total salary paid to the County Clerk’s deputies was \$60,794. In addition, by statute the County Clerk should be paid \$59,435. The fiscal court subsidized \$63,034 of the \$118,613 of payroll expenditures for the County Clerk’s office. Of this, \$380 was paid to two deputies of the County Clerk’s office for a one-time Christmas bonus at the direct request of the County Clerk. Bonus payments outside the regular payroll/salary process are not allowable. We recommend the County Clerk monitor payroll to ensure his deputies do not exceed the salary cap approved by fiscal court and no bonuses of any kind should be made. We will refer this matter to the County Attorney for review.

County Clerk’s Response: Will correct for coming year.

OWSLEY COUNTY
 SID GABBARD, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2006
 (Continued)

2006-09 All Deposits Were Not Made Intact Daily And The Daily Checkout Sheets And Receipts Ledger Postings Did Not Agree To Daily Bank Deposits

The County Clerk's daily checkout sheets and receipts ledger postings did not agree to bank deposits. The County Clerk should deposit all funds received by his office into the fee account. Large portions of daily transactions are cash payments from taxpayers. Due to the high fraud risk associated with these cash transactions, it is crucial that the County Clerk deposit all collections on a daily basis and agree these deposits back to supporting documents. Daily deposits will help prevent the likelihood of misstatement or fraud occurring without being detected. We recommend all collections be deposited on a daily basis, reconciled to the daily checkout sheets, and promptly deposited into the bank with any discrepancies being thoroughly explained.

County Clerk's Response: Will correct.

2006-10 The County Clerk Should Not Commingle Public and Personal Funds

Throughout the year, the County Clerk wrote checks to himself for reimbursement of office supplies, postage, bond payment, etc. The County Clerk then endorsed the back of the check and stamped the back with the fee account deposit stamp. We also noted that the checks would then be deposited into the fee account. KRS 64.850 specifically states an official should not "withdraw public funds for any purpose other than that for which they were received and deposited." The cashing of checks for himself may constitute commingling of public and private funds by the County Clerk.

We recommend the County Clerk stop cashing his reimbursement checks from the fee account. Secondly, we recommend the County Clerk pay for all official expenditures by check and not by personal reimbursement. This matter is being referred to the County Attorney.

County Clerk's Response: Will correct.

2006-11 The County Clerk Did Not Account For Fish And Wildlife Collections

During our testing of the Fish and Wildlife account we noted the following:

- 11 of the 12 months had a deficit bank balance.
- \$788 of bank charges were incurred for non-sufficient funds and overdraft charges.
- The County Clerk stated that he only made a deposit in this account after the bank called and told him how much he needed to deposit in order to bring his account balance back to zero.
- The County Clerk had no system of accounting for these collections and did not reconcile the account.
- As of December 31, 2006, the County Clerk had a cash shortage of \$1,024 in the bank account
- The Fish and Wildlife Account should never have a deficit balance and all bank overdraft charges are disallowed.

OWSLEY COUNTY
 SID GABBARD, COUNTY CLERK
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 (Continued)

2006-11 The County Clerk Did Not Account For Fish And Wildlife Collections (Continued)

Since there is a cash shortage in the 2006 fee account the County Clerk should resolve the shortage by depositing \$1,024 of personal funds into the fish and wildlife account. We also recommend the County Clerk properly administer the Fish and Wildlife collections by making daily deposits and start reconciling this account to ledgers. We will refer this matter to the Department of Fish and Wildlife for review.

County Clerk's Response: No response.

2006-12 The County Clerk Is Not Following Proper Timekeeping Practices For Payroll

During the testing of payroll, we noted that one deputy did not maintain any timesheets and did not account for any leave balances; a second deputy did submit timesheets; however, they did not contain a supervisor's signature.

According to KRS 337.320 "Every employer shall keep a record of the hours worked each day and each week by each employee." Good internal controls dictate all timesheets have supervisory approval and records of vacation and sick time should be properly maintained.

We recommend the County Clerk ensure employees maintain timesheets with proper supervisory approval. Timesheets should include any approved time off including vacation and sick time. Central oversight should be maintained for all payroll records and reconciliations should be completed each pay period by reconciling earnings records and leave time to the timesheets. We also recommend the County Clerk adopt an administrative policy for payroll or adopt the policy of the Fiscal Court. This matter will be referred to U.S. Department of Labor and the state Department of Labor.

County Clerk's Response: Will correct.

2006-13 The County Clerk's Salary Should Be Paid In Accordance With The Maximum Salary Authorizations Set By The Governor's Office For Local Development

The County Clerk's salary was not paid in accordance with the salary schedule set by the Governor's Office For Local Development (GOLD). The County Clerk received \$56,630 as salary during calendar year 2006. The salary set by GOLD for calendar year 2006 was \$59,435. This results in an underpayment of \$2,805. We recommend that the County Clerk seek reimbursement of the \$2,805 due him. This matter will be referred to GOLD.

County Clerk's Response: Will correct.

OWSLEY COUNTY
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For The Year Ended December 31, 2006
(Continued)

2006-14 The County Clerk Did Not Maintain Bank Statements And Did Not Reconcile His Bank Accounts On A Monthly Basis

The County Clerk did not maintain or reconcile bank statements to ledgers on a monthly basis. Auditors had to go directly to the banking institution in order to obtain required information. By not maintaining bank statements the County Clerk cannot reconcile his records to the bank and by not completing bank reconciliations and ensuring they are reconciled to the financial statements errors may occur and go undetected. We recommend the County Clerk maintain all bank statements and reconcile his bank accounts monthly to the ledger.

County Clerk's Response: Will correct.

2006-15 The County Clerk Should Record Payments From The Commonwealth Of Kentucky And The Fiscal Court In Accordance With KRS 43.075

The County Clerk should record all payments received from the Commonwealth of Kentucky and the Owsley County Fiscal Court in accordance with KRS 43.075. Testing noted that these payments were not recorded on the daily checkout sheets or in the receipts ledger. The only recording of these payments was made on the Quarterly Report, and those amounts did not agree to confirmations of state and county payments. We recommend the County Clerk record payments from the Commonwealth of Kentucky and the Fiscal Court on the daily checkout sheets and the receipts ledgers in accordance with KRS 43.075.

County Clerk's Response: Will correct.

2006-16 The County Clerk Did Not Pay Expenditures Timely

The County Clerk was charged \$135 in late fees including charges from Revenue Cabinet for not timely submitting usage tax reports. By not paying bills timely he incurred unnecessary late fees. We recommend the County Clerk pay bills timely to avoid late charges.

County Clerk's Response: Will correct.

2006-17 The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk's office has a lack of segregation of duties, which further contributes to the inability to rely on his financial information. The County Clerk maintains the receipt and disbursement ledgers, makes the bank deposits, and mails checks for payment. Good internal control dictates the same employee should not receive payments, record receipts, and prepare checks for payment. We recommend the County Clerk accurately record all financial transactions and have the duties of receiving payment, paying bills, recording transactions, and preparing financial statements be completed by independent office staff.

County Clerk's Response: No response.

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
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For The Year Ended December 31, 2006
(Continued)

2006-18 The County Clerk Overpaid The Owsley County Extension District \$2,708 From The 2005 Fee Account

As part of closing out the County Clerk's 2005 fee account, the County Clerk overpaid the Owsley County Extension District \$2,708. We recommend the County Clerk seek reimbursement of these monies due to them from the Extension District and remit payment to Fiscal Court.

County Clerk's Response: Will submit request to Extension District.

2006-19 The County Clerk Failed To Comply With Uniform System Of Accounts

The findings above represent failure to comply with the Uniform System of Accounts as adopted under KRS 68.210 and KRS 43.075(3). Among other provisions, this statute requires the official to maintain accurate recording of receipts by source and expenditures by payee, and to fulfill all other legal requirements relating to the management of public funds by his office, including all publication requirements. The requirements for uniform formats for audit reports require that the format of reports for each category of county or district office shall be uniform.

We recommend the County Clerk meet minimum standards of accountability in compliance with the Uniform System of Accounts. This matter will be referred to GOLD.

County Clerk's Response: Will correct.

